

State of Florida

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Public Service Commission

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May 24, 1996

BY FEDERAL EXPRESS

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

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MAY 28 1996
FEDERAL COMMUNICATIONS COMMISSION

Re: Allocation of Costs Associated with Local Exchange Carrier Provision of
Video Programming Services - CC Docket No. 96-112

Dear Mr. Caton:

Enclosed are the original and twelve copies of the Florida Public Service Commission's comments in the above docket. Please date-stamp one copy and return it in the enclosed self-addressed stamped envelope. A diskette of the comments has also been furnished to Andrew Mulitz of the Common Carrier Bureau.

Sincerely,

A handwritten signature in cursive script, reading "Cynthia B. Miller".

Cynthia B. Miller
Associate General Counsel

CBM/jb
Enclosure

cc: International Transcription Service
2100 M Street, NW
Suite 140
Washington, D.C. 20037

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Handwritten: 0211
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BEFORE THE FEDERAL COMMUNICATIONS COMMISSION

In the matter of:) FCC 96-214
)
Allocation of Costs Associated with) CC Docket No. 96-112
Local Exchange Carrier Provision of)
Video Programming Services.)
_____)

COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

On May 10, 1996, the Federal Communications Commission (FCC) issued a Notice of Proposed Rulemaking (NPRM) regarding the Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services. At that time, the pleading cycle was set with comments due eighteen days later on May 28, 1996 and reply comments due ten days after that on June 7, 1996. Due to the limited time frame for issuing comments and reply comments, and due to the significance of the issues addressed in this NPRM, the Florida Public Service Commission (FPSC) believes that this proceeding should be perceived as an interim measure and further extensive analysis should be initiated in the near future. Our comments here are limited to issues which we believe warrant special attention. Additional comments may be provided during the reply comment cycle.

Overall, the NPRM seeks comments on the identification of the need as well as the appropriate methods for allocating costs between regulated activities subject to Title II and nonregulated activities, including video services and other offerings, that become subject to competition. The FPSC believes that cost

allocation mechanisms will continue to be necessary until such time as a fully competitive market develops. Although many jurisdictions are moving away from rate base regulation, there are a number of reasons for concern over cost allocations between partially or fully regulated services and nonregulated services. Many price cap plans include sharing mechanisms based upon earnings levels. Also, the current "Universal Service Fund" is predicated on regulated cost levels. To the extent regulatory bodies prescribe interconnection arrangements between carriers, cost based information is necessary.

The FPSC believes that specific cost pools and allocation factors should be prescribed for video programming and other nonregulated service costs. Specific cost pools are necessary because the existing Part 32 (Uniform System of Accounts) does not separate costs in such a manner that the costs related to video programming could be tracked. Separate cost pools and allocation factors for video programming would facilitate more accurate allocation of costs to nonregulated services.

The FPSC agrees that the most administratively efficient and objective basis for allocating loop costs is a fixed factor. We believe that a fixed allocator to allocate costs related to video programming services would be appropriate since the cost of the loop and related switching costs are for the most part fixed costs. Our initial thoughts are a split that results in at least a minimum allocation of 50% to nonregulated services related to video

programming would be appropriate based on the additional capacity and usage that is associated with providing video programming. The loop costs associated with video programming should be directly assigned to nonregulated when possible, with the remaining costs allocated using at a minimum the 50/50 split. The 50/50 split should apply to the loop costs that have video programming capability. Loop costs eligible for the 50/50 split could be identified by applying the ratio of loops with video programming capability to total loops, to the total loop costs.

The FPSC further agrees that loop costs are non-traffic sensitive and the current allocation method is arbitrary. Any allocation percent should fall between long run incremental costs and stand alone costs. Video service requires more bandwidth than voice transmission and we expect that more time is spent using video services versus telephone services. Also, there may be other nonregulated services that use the local loop such as electronic directory and internet services.

To facilitate cost allocation, there should be an annual calculation of a composite allocation factor for the study area. This should be based on the relative number of loops capable of providing video services as compared to the total number of working loops. Therefore, we expect the composite allocation factor to nonregulated to be less in the near term because it will take time for the LECs to develop the capabilities to provide video services.

Finally, in the area of expense allocation, we believe that it would be appropriate to allocate maintenance expense based on a fixed factor rather than a usage factor since a majority of the plant is non-traffic sensitive. Further, regarding an expense item not mentioned in the NPRM, we believe that the allocation method for allocating Research and Development (R&D) Costs should be changed to a distribution based on the nature of the work as opposed to the current method of allocating based on projected (three years) investment in nonregulated investment. Our initial thoughts are that companies should be required to "keep costs" by R&D project, and a maximum of 25% of R&D should be allocated to regulated services.

The current method allocates an excessive amount of R&D costs to regulated operations. In the 1993 Regional Audit of BellSouth, it was noted that about 95% of R&D costs were allocated to regulated operations. Also, BellSouth did not keep R&D costs by project. Yet, it appeared that significant R&D efforts were taking place in nonregulated areas, including Video Transport Services.

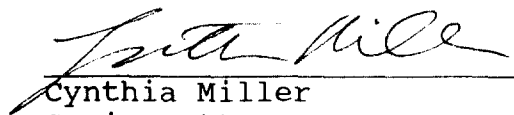
In summary:

- cost allocation mechanisms will be necessary until such time as a fully competitive market develops;
- specific cost pools and allocation factors should be prescribed for video programming and other nonregulated service costs;

- our initial thoughts are that the appropriate method for allocating loop costs is based upon a fixed factor which apportions a minimum of 50% of these costs to nonregulated activities;
- it is appropriate to allocate maintenance costs based on a fixed factor; and
- our initial thoughts are that R&D costs should be allocated based on the nature of the work with a maximum of 25% of R&D costs allocated to regulated activities.

Finally, due to the limited amount of time given to complete this proceeding, further consideration should be given to these issues in the future proceedings.

Respectfully submitted,


Cynthia Miller
Senior Attorney

FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

DATED: MAY 24th, 1996